Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report 'ssued under P.A. 2 of 1968, as amended.

79-2010

[Local Go	vernment Ty	pe wnship	. 🗆	Village	Other	Local Government				County	NΑ	
Audit Date Opinion Date Date Accountant Report Submitted to State: 12/15/04													
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								nits of Government in M	<i>lichigan</i> as rev	vised.		DEC 2 7 2004	
							to practice in N					12/2	
CC	e furth	er affirm ti ts and rec	he folk omme	owing. endatio	"Yes" re	esponses ha	ve been disclo	sed in the financial sta	itements, inclu	iding the	no est ov	InAthBlifepoff NANCE	טוע
Yo	ou must	check the	appli	cable	box for e	each item be	low.						
	Yes	✓ No	1.	Certai	n compo	nent units/fu	ınds/agencies	of the local unit are ex	cluded from th	e financi	al staten	nents.	
] Yes	✓ No	2.	There				or more of this unit's u					
] Yes	✓ No	3.	There amend	are inst led).	ances of no	on-compliance	with the Uniform Acc	counting and I	Budgetin	g Act (P.	A. 2 of 1968, as	
Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.													
	Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).												
	Yes	√ No	6. 1	he loc	al unit h	as been deli	nquent in distr	ibuting tax revenues th	nat were collec	ted for a	nother ta	xing unit.	
	Yes	√ No				s (nonnai G	Jaca) III lille Cu	ional requirement (Art rrent year. If the plan uirement, no contribution	is more than	1000/ 4.		1.4L., # 11	
	Yes	√ No	8. T	he loc				s not adopted an app					
	Yes	✓ No	9. T	he loc	al unit ha	as not adopt	ed an investme	ent policy as required t	oy P.A. 196 of	1997 (M	CL 129.9	5).	
We	have e	enclosed	the fo	llowir	ng:				Enclosed		Ве	Not	
The	e letter	of comme	nts ar	d reco	mmend	ations.	DACE 6	0	Linciosed	FOR	varded	Required	
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CITY OF VASSAR

Tuscola County, Michigan 79 - 2010

FINANCIAL STATEMENTS

June 30, 2004



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council City of Vassar, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Vassar, Michigan management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

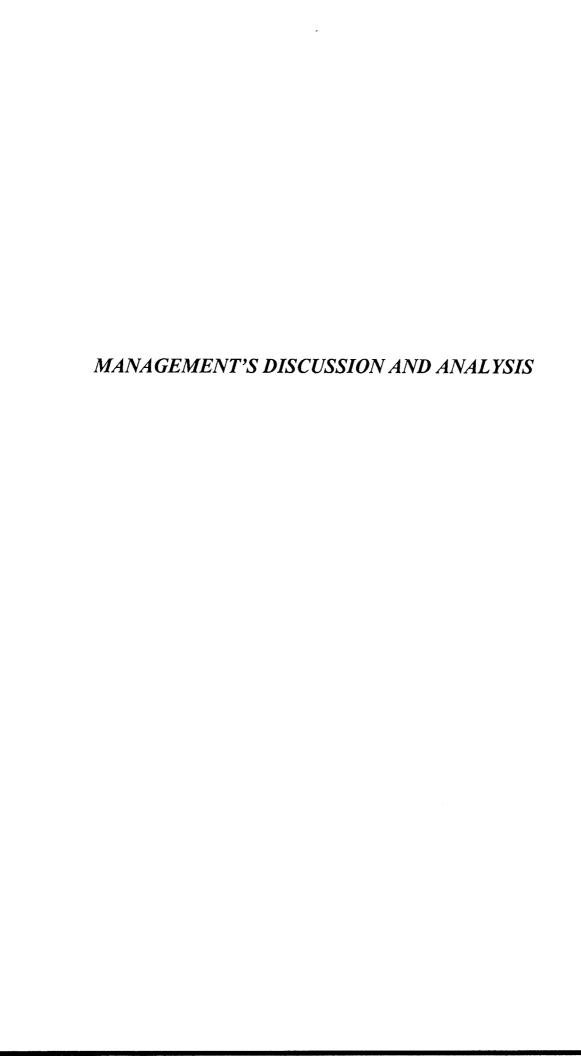
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, schedule of defined benefit pension plan funding progress, and budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vassar, Michigan's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related statements, as of July 1, 2003.

Betchieume & Co_ September 23, 2004



MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The 2004 financial statements of the City of Vassar follow a different format than in previous years. These financial statements have been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, Stateshared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

Component Units – The City includes the Economic Development Corporation and the Downtown Development Authority in its report.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short-and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$11,784,003 (net assets), a decrease of \$40,190 from the previous year. Of the \$11,784,003 reported in net assets, \$2,491,100 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- Net assets of our governmental activities increased \$41,535, or .89 percent, while net assets of our business-type activities decreased \$81,725, or 1.1 percent.
- Unrestricted net assets for governmental activities are 43.3 percent of expenses. Unrestricted net assets for business-type activities exceed expenses.
- The General Fund reported revenues in excess of expenditures of \$391,309 for the year. This resulted in a year end fund balance of \$672,420. Of this amount, \$616,745 is unreserved and undesignated, or 45.7 percent of General Fund expenditures.
- The City completed a review of current investments in February 2004, which provided an improved rate of return on investments for excess funds in the General Fund, Local Street Fund and Enterprise Funds.
- The City benefited from a 6.2% increase in the total taxable value of residential property in the current fiscal year due to new construction of homes in Canterbury Subdivision and within a private development on Alexander Lane.

The City as a Whole

The City's combined net assets are \$11,784,003 at June 30, 2004. Business-type activities make up \$7,062,088 and governmental activities make up \$4,721,915 of the total. Future reports will provide an analysis of comparative data from the statement of net assets and statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of net assets and condensed statement of the management's discussion and analysis. A condensed statement of net assets and condensed statement of activities for the current year are shown below.

City of Vassar - Net Assets

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$11,784,003 (net assets). However, a major portion (71 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City of \$2,491,100 at the end of this year represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

	Governmental Activities	Business-type Activities	<u>Total</u>
	<u>2004</u>	<u>2004</u>	2004
Assets:			
Current and other assets	\$ 1,743,233	\$ 1,793,924	\$ 3,537,157
Capital assets	3,149,667	7,269,601	10,419,268
Total assets	4,892,900	9,063,525	13,956,425
Liabilities:			
Long-term liabilities	91,217	1,963,199	2,054,416
Other liabilities	79,768	38,238	118,006
Total liabilities	170,985	2,001,437	2,172,422
Net assets:			
Invested in capital assets, net of related debt	3,079,676	5,334,601	8,414,277
Restricted	670,961	207,665	878,626
Unrestricted	971,278	1,519,822	2,491,100
Total net assets	\$ 4,721,915	\$ 7,062,088	\$ 11,784,003

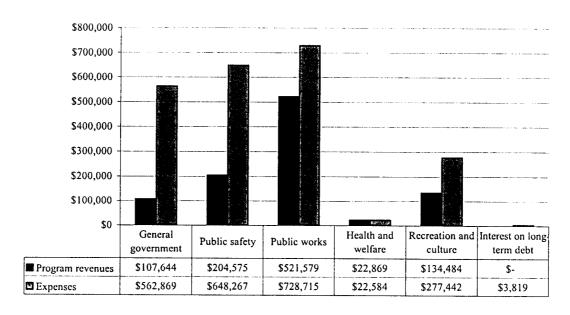
The following table shows the changes in net assets for 2004:

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues			
Charges for services	\$ 528,410	\$ 929,945	\$ 1,458,355
Operating grants and contributions	462,741	287	463,028
General revenues			
Property taxes	859,422	-	859,422
Other taxes	8,783	-	8,783
State-shared revenue	379,269	-	379,269
Investment earnings	11,821	11,988	23,809
Miscellaneous	30,246	13,629	43,875
Total revenues	2,280,692	955,849	3,236,541
Expenses:			
General government	562,869	-	562,869
Public safety	648,267	-	648,267
Public works	728,715	-	728,715
Health and welfare	22,584	-	22,584
Recreation and culture	277,442	-	277,442
Interest on long-term debt	3,819	-	3,819
Sewer	-	672,964	672,964
Water	-	364,610	364,610
Total expenses	2,243,696	1,037,574	3,281,270
Excess (deficiency) of revenues over (under) expenses			
before contributions and special items	36,996	(81,725)	(44,729)
Contributions and Special Items:			
Contributions to principal of permanent funds	3,750		3,750
Special item - Gain on sale of capital assets	789	-	789
	4,539	-	4,539
Change in net assets	41,535	(81,725)	(40,190)
Net assets, beginning of year	4,680,380	7,143,813	11,824,193
Net assets, end of year	\$ 4,721,915	\$ 7,062,088	\$ 11,784,003

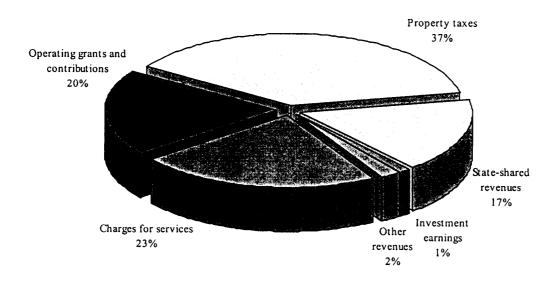
Governmental Activities

For the year ended June 30, 2004, revenues for the City's governmental activities totaled \$2,285,231. Property taxes accounted for 37 percent of the total revenues, or \$859,422. State-shared revenues were 17 percent, or \$379,269; these revenues continue to be a concern as to future funding levels.

Expenses and Program Revenues Governmental Activities



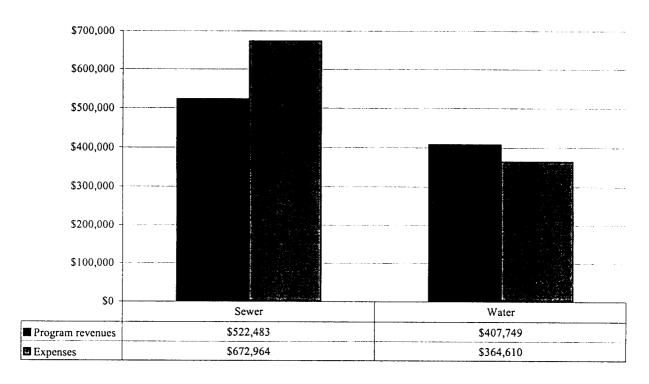
Revenue by Source Governmental Activities



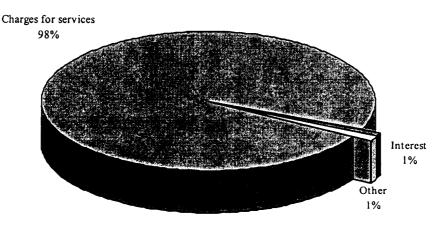
Business-type Activities

For the year ended June 30, 2004, revenues for business-type activities were \$955,849. Charges for services were 98 percent of gross revenues, or \$929,945.

Expenses and Program Revenues Business-type Activities



Revenue by Source Business-type Activities



The City has two business type-activities: the sewer and water systems. In total, these two activities generated \$929,945 in charges for services, and incurred \$1,037,574 in expenses. In addition, general revenues for business-type activities were \$25,617. The City's business-type activities experienced a decrease in net assets of \$81,725 for the year.

Capital Assets and Debt Administration

At the end of the fiscal year 2004, the City has \$16,616,831 invested, before depreciation, in a wide range of capital assets, including land, buildings and improvements, vehicles, furniture and equipment, and sewer and water distribution systems. In addition, for the first time, the City is reporting infrastructure assets. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets. The value of the infrastructure assets, net of depreciation, contained in this report is \$1,354,256 at June 30, 2004.

Debt of \$52,921 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$1,935,000 is recorded as a liability in the business-type activities in the statement of net assets. Proceeds from this debt were used for the construction of the sewage disposal and water supply systems.

The City's Funds

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities. The City's major governmental funds for 2004 include the General Fund, Major Street Fund, and Local Street Fund.

The City's governmental funds reported combined fund balance of \$1,566,437 for this year, a decrease of \$47,018 from last year.

General Fund Budgetary Highlights

The City uses quarterly budget amendments to monitor revenue and expenditure levels throughout the fiscal year. As a result, any differences between the original and final amended budgets for revenues and expenditures were relatively minor. The primary reason the revenue differences occurred was the result of a FEMA grant that was abandoned in fiscal year 2004, penalties and interest that were determined to be due to the State of Michigan for SET collections, as well a reduction in the final state revenue sharing check that was received from the State of Michigan. There were only a few expenditures amounts that varied from the adopted budget to actual expenditure amounts. Those items were insignificant and were the result of year-end invoices and accounts payable adjustments.

Economic Factors

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. Some areas of the

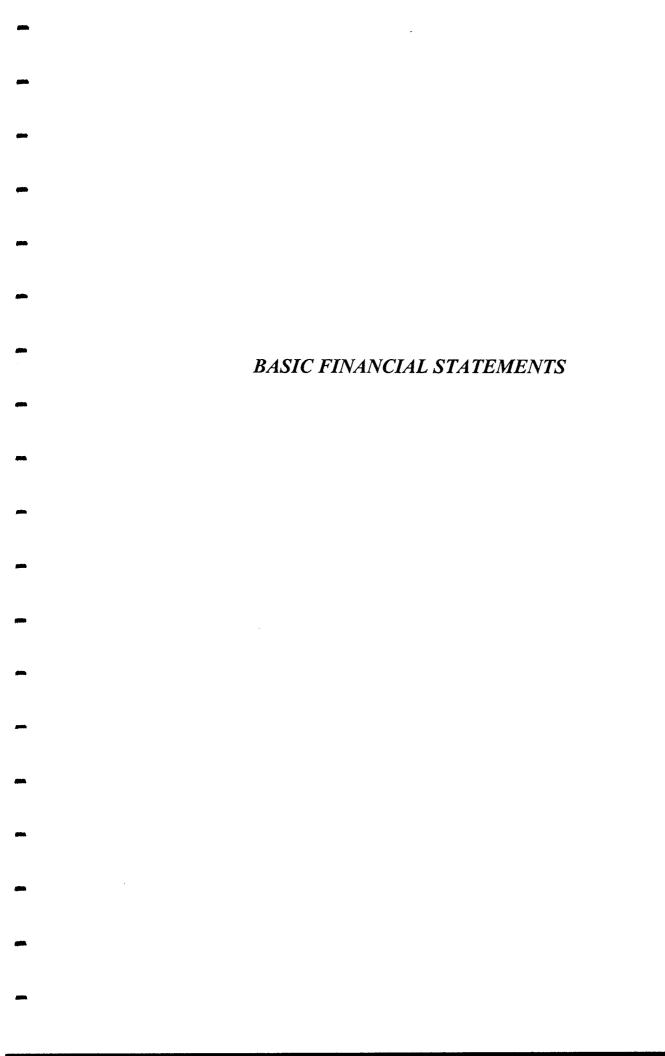
City's fee schedule were revised in fiscal year 2004 to allow the city to receive payment that coincides with the amount of costs incurred by the city when providing services.

In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care, employer retirement contributions and general liability insurance). The City has 3 bargaining units with contracts that expired on June 30, 2004. Future budgets will have to be evaluated following the negotiation of new contracts for union employees if changes are made in benefits for this group of employees.

We are continuing to plan for the long-term financial needs of the city by monitoring investments, projected revenue amounts and evaluating capital improvement needs and personnel costs. We will continue to balance the budgets through controls over spending, while still providing the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Scott Adkins, City Manager, 287 E. Huron Avenue, Vassar, Michigan 48768.



STATEMENT OF NET ASSETS

June 30, 2004

	<i>Pr</i>	_		
	Governmental	Business-type		Component
	<u> Activities</u>	Activities	<u>Total</u>	Units
A A				
Assets:	D 1 445 (05	m 1 100 m10		
Cash and cash equivalents Receivables	\$ 1,445,625	\$ 1,422,713	\$ 2,868,338	•
=	270,011	83,326	353,337	14,622
Prepaid items and other assets	22,481	80,220	102,701	-
Inventory Restricted cash and cash equivalents	5,116	207.665	5,116	-
Capital assets:	-	207,665	207,665	-
Nondepreciable capital assets	523,500	43,009	566,509	
Depreciable capital assets, net	2,626,167	7,226,592	9,852,759	-
Total assets	4,892,900	9,063,525	13,956,425	110,989
Liabilities:				
Accounts payable and accrued expenses	79,768	38,238	118,006	-
Deferred revenue	-	-	·	14,622
Long-term liabilities:				
Due within one year	38,523	160,000	198,523	-
Due in more than one year	52,694	1,803,199	1,855,893	
Total liabilities	170,985	2,001,437	2,172,422	14,622
Net assets:				
Invested in capital assets, net of related debt	3,079,676	5,334,601	8,414,277	
Restricted for:	3,072,070	3,334,001	0,414,277	_
Debt service	9,062	207,665	216,727	_
Nonexpendable cemetery principal	110,911	207,005	110,911	_
Streets	550,988	_	550,988	_
Unrestricted	971,278	1,519,822	2,491,100	96,367
Total net assets	\$ 4,721,915	\$ 7,062,088	\$ 11,784,003	\$ 96,367

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

			Program Revenues				-	
	_ <i>Ex</i>	xpenses	Operating Charges for Grants and Services Contributions			Net (Expense) Revenue		
Functions/Programs PRIMARY GOVERNMENT:								
Governmental activities:								
General government	\$	562,869	\$	107,644	\$	-	\$	(455,225)
Public safety		648,267		96,759		107,816		(443,692)
Public works		728,715		193,940		327,639		(207,136)
Health and welfare		22,584		22,869				285
Recreation and culture		277,442		107,198		27,286		(142,958)
Interest on long-term debt		3,819						(3,819)
Total governmental activities	2	,243,696		528,410		462,741		(1,252,545)
Business-type activities:								
Sewer		672,964		522,483		_		(150,481)
Water		364,610		407,462		287		43,139
Total business-type activities	1	,037,574		929,945		287		(107,342)
Total primary government	\$ 3	,281,270	<u>\$</u>	1,458,355	\$	463,028	\$ ((1,252,545)
COMPONENT UNITS:								
Downtown development authority	\$	6,259	\$	-	\$	370	\$	(5,889)
Economic development corporation		20,065		_				(20,065)
Total component units	\$	26,324	\$	-	\$	370	\$	(25,954)

continued

	Pr			
	Governmental	type		Component
	Activities	Activities	<u>Total</u>	Units
Changes in net assets				
Net (Expense) Revenue	\$ (1,252,545)	\$ (107,342)	\$ (1,359,887)	\$ (25,954)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	859,422	_	859,422	72,241
Payment in lieu of property taxes	1,260	_	1,260	-
Franchise taxes	7,523	-	7,523	-
Grants and contributions not restricted to				
specific programs	379,269	-	379,269	_
Unrestricted investment earnings	11,821	11,988	23,809	884
Contributions to principal of permanent funds	3,750	-	3,750	-
Miscellaneous	30,246	13,629	43,875	-
Gain on sale of capital asset	789	_	789	-
Total general revenues	1,294,080	25,617	1,319,697	73,125
Change in net assets	41,535	(81,725)	(40,190)	47,171
Net assets, beginning of year	4,680,380	7,143,813	11,824,193	49,196
Net assets, end of year	\$ 4,721,915	\$ 7,062,088	\$ 11,784,003	\$ 96,367

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2004

	(General Fund	_	Major Street Fund	 Local Street Fund	lonmajor vernmental Funds	Go —	Total overnmental Funds
Assets: Cash and cash equivalents Taxes receivable Accounts receivable Notes receivable Interest receivable Due from other governmental units Due from other funds Prepaid expenditures	\$	502,045 30,620 14,136 35,002 - 142,379 2,381 17,224	\$	131,168 - - - - 26,637 - 2,344	\$ 443,579 - - - 1,475 10,132 - 2,344	\$ 335,847 - 5,690 - 296 3,644 955 569	\$	1,412,639 30,620 19,826 35,002 1,771 182,792 3,336 22,481
Inventory		5,116		-,-	 -	 -		5,116
Total assets	\$	748,903	\$	160,149	\$ 457,530	\$ 347,001	\$	1,713,583
Liabilities and Fund Balances: Liabilities: Accounts payable								
and accrued expenses Due to other governmental units Due to other funds	\$	6,831 4,030	\$	66,003 - -	\$ 688 - -	\$ 636 - 3,336	\$	74,158 4,030 3,336
Deferred revenue Total liabilities		65,622 76,483	***************************************	66,003	 688	 3,972		65,622 147,146
Fund balances: Reserved for: Prepaid expenditures Inventory Nonexpendable cemetery principal		17,224 5,116		2,344 - -	2,344 - -	569 - 110,911		22,481 5,116 110,911
Unreserved: Designated, reported in: General fund Undesignated, reported in: General fund Special revenue funds Debt service funds		33,335 616,745 -		- 91,802	- 454,498 -	- 222,487 9,062		33,335 616,745 768,787 9,062
Total fund balances		672,420		94,146	 456,842	 343,029		1,566,437
Total liabilities and fund balances	\$	748,903	\$	160,149	\$ 457,530	\$ 347,001	\$	1,713,583

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2004

Total fund balances for governmental funds	:	\$ 1,566,437
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	4,582,032	
Less accumulated depreciation	(1,432,365)	3,149,667
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental		
funds.		(1,580)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities.		65,622
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Capital lease payable	(15,615)	
Contracts payable	(37,307)	
Compensated absences payable	(38,295)	(91,217)
The assets and liabilities of internal service funds are included in governmental		
activities in the statement of net assets.	-	32,986
Net assets of governmental activities	9	§ 4,721,915
	=	

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

D.		General Fund		Major Street Fund		Local Street Fund		lonmajor vernmental Funds	Tote Governi Fun	mental
Revenues:	¢.	020.062	œ	45 202	•	22.527	•	5.004	• •	
Property taxes	\$	830,063	\$	45,292	\$	22,537	\$	5,904		3,796
Licenses and permits		10,160		-		•		-		0,160
Federal grants		21,729		165 405		-		20.462		1,729
State grants Contributions from other units		382,323		165,485		62,471		32,463		2,742
Charges from services		26,788		-		-		74,329		1,117
Fines and forfeits		174,724		-		-		37,350		2,074
		16,582		-		-		895		7,477
Interest and rents		195,824		989		3,258		19,109		9,180
Other revenue		81,773		715		715	_	57,217	14	0,420
Total revenues		1,739,966		212,481		88,981		227,267	2,26	8,695
Expenditures: Current:										
General government		475,594		-		-		46,437	52	2,031
Public safety		487,361		-		-		90,577		7,938
Public works		213,697		252,239		160,955		55,675		2,566
Health and welfare		22,584		-		-		-		2,584
Recreation and culture		-		-		-		250,447		0,447
Other		61,404		-		-		· <u>-</u>		1,404
Capital outlay		45,405		93,186		1,073		16,467		6,131
Debt service:										
Principal		37,429		-		-		-	3	7,429
Interest and charges		5,183		-		-				5,183
Total expenditures		1,348,657		345,425		162,028		459,603	2,31	5,713
Excess (deficiency) of										
revenues over expenditures		391,309		(132,944)		(73,047)		(232,336)	(4	7,018)
Other financing sources (uses):										
Transfers in		17,137		19,008		90,000		264,187	39	0,332
Transfers out		(366,990)		(4,250)		-		(19,092)		0,332)
		(3.3.7.2.2)		(,,==,)				(17,072)		0,332)
Total other financing sources and (uses)		(349,853)		14,758		90,000		245,095		-
Net change in fund balances		41,456		(118,186)		16,953		12,759	(4	7,018)
Fund balances, beginning of year		630,964		212,332		439,889		330,270	1,61	3,455
Fund balances, end of year	<u>\$</u>	672,420	\$	94,146	<u>\$</u>	456,842	\$	343,029	\$ 1,56	6,437

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2004

Net change in fund balances - total governmental funds		\$	(47,018)
Total change in net assets reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	189,841		
Less depreciation expense	(210,201)		(20,360)
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds.			65,622
Repayments of principal on capital leases and contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.			37,429
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Change in compensated absences payable	4,774		
Change in accrued interest on leases and loans payable	1,364		6,138
The net revenue (expense) of the internal service fund is reported with governmental activities.		<u></u>	(276)
Change in net assets of governmental activities		\$	41,535

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

	Мај	ior Enterprise F	unds	_
Assortes	Sewer Fund	Water Fund	Total	Internal Service Fund
Assets: Current assets:				
Cash and cash equivalents Accounts receivable Accrued interest receivable Prepaid expenses	\$ 688,412 46,230 1,184 2,867	\$ 734,301 34,728 1,184 689	\$ 1,422,713 80,958 2,368 3,556	\$ 32,986 - - -
Total current assets	738,693	770,902	1,509,595	32,986
Noncurrent assets: Restricted cash and cash equivalents Capital assets: Nondepreciable capital assets Depreciable capital assets, net Deferred financing costs	123,466 33,422 5,652,165 32,804	84,199 9,587 1,574,427 43,860	207,665 43,009 7,226,592 76,664	- - -
Total noncurrent assets	5,841,857	1,712,073	7,553,930	
Total assets	6,580,550	2,482,975	9,063,525	32,986
Liabilities: Current liabilities: Accounts payable and accrued expenses Compensated absences payable Current portion of long-term debt	\$ 16,953 16,877 90,234	\$ 21,285 11,322 69,766	\$ 38,238 28,199 160,000	\$ - -
Total current liabilities	124,064	102,373	226,437	
Noncurrent liabilities: Long-term debt Total noncurrent liabilities Total liabilities	1,001,036 1,001,036 1,125,100	773,964 773,964 876,337	1,775,000 1,775,000 2,001,437	
Net assets: Invested in capital assets, net of related debt Restricted for:	4,594,317	740,284	5,334,601	-
Debt service Unrestricted	107,321	84,199	191,520	22.000
Total net assets	753,812	782,155	1,535,967	32,986
1 Otal fict assets	\$ 5,455,450	\$ 1,606,638	\$ 7,062,088	\$ 32,986

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	Major Enterprise Funds							
		Sewer Water Fund Fund		Total		Internal Service Fund		
Operating revenues:								
Charges for services	\$	522,483	\$	396,262	\$	918,745	\$	_
Penalties		-		11,200		11,200		-
Other		6,335		7,294		13,629		1,643
Total operating revenues		528,818		414,756		943,574		1,643
Operating expenses:								
Personnel		155,794		79,945		235,739		-
Fringe benefits		47,076		22,798		69,874		-
Supplies		28,541		26,261		54,802		-
Contracted services		23,795		22,568		46,363		-
Administrative expense		20,000		15,000		35,000		-
Telephone		2,796		7,623		10,419		-
Education and training		136		2,314		2,450		-
Insurance		19,033		3,692		22,725		-
Utilities		56,952		42,707		99,659		-
Repair and maintenance		29,643		22,865		52,508		2,133
Equipment rental		5,841		15,271		21,112		´-
Other services and supplies		-		1,954		1,954		•
Depreciation		223,086		52,973		276,059		
Total operating expenses		612,693		315,971		928,664		2,133
Operating income (loss)		(83,875)		98,785	_	14,910		(490)
Non-operating revenues (expenses):								
State grants		_		287		287		-
Interest income		5,807		6,181		11,988		214
Interest expense		(60,271)		(48,639)		(108,910)		-
Total non-operating revenues (expenses)		(54,464)		(42,171)		(96,635)		214
Net income (loss)		(138,339)		56,614	-	(81,725)		(276)
Net assets, beginning of year, as restated	<u></u>	5,593,789		1,550,024		7,143,813		33,262
Net assets, end of year	\$	5,455,450	\$	1,606,638	<u>\$</u>	7,062,088	\$	32,986

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	Major Enterprise Funds							
		Sewer Fund		Water Fund		Total		Internal Service Fund
Cash flows from operating activities: Cash received from customers Cash payments to employees Cash payments to suppliers for goods and services	\$	537,919 (154,830) (231,853)	\$	416,248 (95,919) (172,840)	\$	954,167 (250,749) (404,693)	\$	1,643 (2,133)
Net cash provided (used) by operating activities		151,236	_	147,489		298,725		(490)
Cash flows from capital and related financing activities: State grants Acquisition and construction of capital assets		- (31,955)		287 (63,834)		287 (95,789)		- -
Principal payments Interest paid Amortization of deferred financing costs		(78,955) (60,271) 3,619		(61,045) (48,639) 4,839		(140,000) (108,910) 8,458		- -
Net cash provided (used) by capital and related financing activities		(167,562)		(168,392)	_	(335,954)		-
Cash flows from investing activities: Interest received		5,807		6,181		11,988		214
Net cash provided by investing activities		5,807	_	6,181		11,988	_	214
Net increase (decrease) in cash and cash equivalents		(10,519)		(14,722)		(25,241)		(276)
Cash and cash equivalents, beginning of year		822,397		833,222		1,655,619	_	33,262
Cash and cash equivalents, end of year	\$	811,878	<u>\$</u>	818,500	<u>\$</u>	1,630,378	\$	32,986
Operating income (loss) Adjustments:	\$	(83,875)	\$	98,785	\$	14,910	\$	(490)
Depreciation Decrease (increase) in current assets: Accounts receivable		223,086		52,973		276,059		-
Accrued interest receivable Due from other governmental units		10,285 (1,184) -		1,970 (1,184) 706		12,255 (2,368) 706		- -
Prepaid expenses Increase (decrease) in current liabilities: Accounts payable and accrued expenses		(317) 2,277		228 9,985		(89) 12,262		-
Due to other funds Compensated absences payable		964		(15,974)	_	(15,010)	_	-
Net cash provided (used) by operating activities	\$	151,236	\$	147,489	\$	298,725	\$	(490)

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

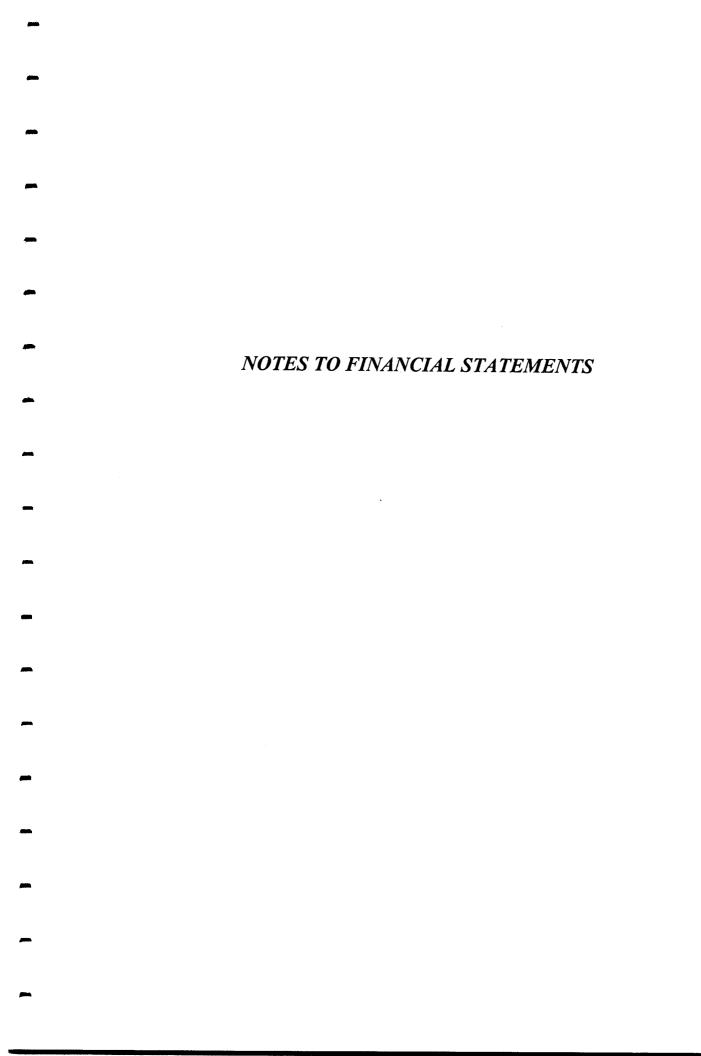
	Private		
	Purpose Trust	Agency	
	Funds	<u>Funds</u>	Total
Assets:			
Cash and cash equivalents	\$ 39,339	\$ 6,985	\$ 46,324
Accounts receivable	-	48	48
Notes receivable	9,339	-	9,339
Total assets	48,678	7,033	55,711
Liabilities:			
Accounts payable and accrued expenses	1	6,559	6,560
Due to other governmental units	-	474	474
Deferred revenue	9,339	-	9,339
Total liabilities	9,340	7,033	16,373
Net Assets:			
Unrestricted	39,338	**	39,338
Total net assets	\$ 39,338	\$ -	\$ 39,338

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET ASSETS

Year Ended June 30, 2004

	Private Purpose Trust Funds
Additions: Donations Investment income Loan repayments	\$ 1,060 422 2,350
Total additions	3,832
Deductions: Public safety Total deductions	2,166 2,166
Net increase (decrease)	1,666
Net assets, beginning of year Net assets, end of year	\$ 37,672 \$ 39,338



NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vassar was incorporated in 1945 and is located in Tuscola County, Michigan. The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a five member City Council elected by the community at large. The legislative body selects from among its members the Mayor and appoints a City Manager to administer the affairs of the City. The City provides the following services to approximately 2,800 residents as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and culture, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Vassar conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units columns in the combined financial statements include the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Economic Development Corporation - The members of the governing board of the Economic Development Corporation are appointed by the City Council.

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Basis of Presentation - Fund Accounting:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

June 30, 2004

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

June 30, 2004

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to accounted for in another fund.

Major Street Fund - The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

Local Street Fund – The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Assets, Liabilities, and Equity:

Deposits and Investments — Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on July 1 and are due without penalty on or before July 31. The City bills and collects its own property taxes as well as those of Vassar Public Schools, Tuscola Intermediate School District and Tuscola County. Collections of these taxes and remittance of them to the entities are accounted for in the tax collection agency fund. City property tax revenues are recognized in the general fund.

The 2003 taxable valuation of the City totaled \$47,241,601, on which ad valorem taxes levied consisted of 17.5000 mills for the City's operating purposes.

The delinquent real property taxes of the City are purchased by Tuscola County.

Inventories and Prepaid Expenses – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

June 30, 2004

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized. Buildings and improvements, infrastructure, vehicles, and furniture and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	3-25 years
Furniture and other equipment	3-15 years

Compensated Absences — It is the City's policy to permit employees to accumulate earned but unused sick days. Depending on whether the employee is union, non-union, full- or part-time and on hire date, the employee can accumulate from 45 to 180 sick days. Upon retirement or leaving the employment of the City, union employees are paid for one half of their accumulated days, while non-union employees are paid for all of their accumulated days, subject to certain limitations. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment — generally when an individual's employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

June 30, 2004

Accounting Change:

GASB Statement No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements prepared using full accrual accounting for all of the City's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets include assets totaling \$4,392,191 of which \$3,830,256 was previously reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 have been adjusted by \$1,222,164 to reflect the historical cost of the City's capital assets at that date. In addition, the governmental activities column includes bonds and other long-term obligations totaling \$136,364 of which \$133,420 was previously reported in the General Long-term Debt Account Group.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
- 4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency and Internal Service Funds.
- 5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
- 6. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

June 30, 2004

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at June 30, 2004 are included in the statement of net assets under the following categories:

		Governmental <u>Activities</u>				Business-type <u>Activities</u>		otal Primary Sovernment	Component <u>Units</u>		
Cash and cash equivalents	\$	1,445,625	\$	1,422,713	\$	2,868,338	\$	96,367			
Restricted cash and cash equivalents				207,665		207,665		-			
	\$	1,445,625	<u>\$</u>	1,630,378	\$	3,076,003	\$	96,367			

Deposits:

The breakdown between deposits and investments for the City is as follows:

	<u>G</u>	Primary overnment	C	omponent <u>Units</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$	2,703,538	\$	96,367
Investments in Governmental Operating Money Market Funds Petty cash and cash on hand	<u></u>	371,908 557		-
Total	\$	3,076,003	\$	96,367

The deposits of the primary government and component units were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$2,914,555, of which \$595,687 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

June 30, 2004

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

		 Reported		
	1	2	3	Amount air Value)
Primary government:				
Investments not subject to categorization:				
Bank One - Governmental Operating				
Money Market Fund				\$ 371,908

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

The authorizing ordinance for the 1998 Refunding Bonds requires the establishment and maintenance of various reserve funds as follows:

Operation and Maintenance Fund - The City is required to set aside a sum sufficient to provide for the payment of the next month's administration and operation expenses.

Bond and Interest Redemption Fund - The City is required to set aside a sum sufficient to provide for the payment of the current bond principal and interest payment less accrued interest available in the Redemption Fund.

Replacement Fund - The City is required to set aside money in a Replacement Fund, as the Council may deem advisable.

Improvement Fund - The City is required to set aside money in an Improvement Fund, as the Council may deem advisable.

June 30, 2004

The official statement for the 1998 Refunding Bonds states the following:

Bond Reserve Account: Upon the issuance of the Bonds, the bond reserve account established with respect to the Refunded Bonds (the "Bond Reserve Account") will be equal to the lesser of (1) the maximum annual debt service due on the Bonds, (2) 125% of the average annual debt service requirements on the Bonds, or (3) 10% of the principal amount of the Bonds. Except as provided in the Ordinance, the monies credited to the Bond Reserve Account shall be used solely for the payment of the principal and interest on the Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use monies credited to the Bond Reserve Account for such payment, then the monies so used shall be replaced from the Net Revenues first received thereafter which are not required for current principal and interest requirements. If Additional Bonds from time to time are issued, each ordinance authorizing the Additional Bonds shall provide for additional deposits to the Bond Reserve Account to be made in an amount that will result in the Bond Reserve Account being equal to the lesser of (1), (2), or (3) above after issuance of the Additional Bonds.

As of June 30, 2004 the City has set aside sufficient amounts as follows:

	Business-type Activities								
	<u>Sewer</u>		<u>Water</u>		<u>Total</u>				
Restricted cash and cash equivalents:									
Bond Reserve	\$ 107,25	51 \$	82,922	\$	190,173				
Bond and Interest Redemption	7	70	1,277		1,347				
Replacement Reserve	16,14	15	-	_	16,145				
	\$ 123,46	66 \$	84,199	\$	207,665				

The required minimum amount for the bond reserve is 125% of the average annual debt service requirement. The total bond reserve amount was deposited upon issuance of the bonds. The City has sufficient assets in both funds to fund the reserves.

June 30, 2004

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities was as follows:

	_	Balance July 1, 2003 Additions		Disposals and Adjustments			Balance June 30, 2004	
Governmental activities:								
Capital assets not being depreciated								
Land	\$	523,500	\$	-	\$	-	\$	523,500
Capital assets being depreciated:								
Buildings and improvements		1,276,440		-		-		1,276,440
Infrastructure		1,256,516		97,740		-		1,354,256
Vehicles		440,575		-		-		440,575
Furniture and equipment		895,160		92,101		-	_	987,261
Total capital assets being depreciated		3,868,691		189,841		-		4,058,532
Accumulated depreciation		1,222,164		210,201		-	_	1,432,365
Net capital assets being depreciated		2,646,527		(20,360)		-		2,626,167
Net governmental activities capital assets	\$	3,170,027	\$	(20,360)	\$	_	\$	3,149,667

June 30, 2004

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004	
Business-type activities:					
Sewer capital assets:					
Capital assets not being depreciated					
Land	\$ 33,422	\$ -	\$ -	\$ 33,422	
Capital assets being depreciated					
Equipment	116,578	2,096	-	118,674	
Mains	1,203,303	20,581	-	1,223,884	
Treatment plant	7,712,101	9,278	_	7,721,379	
Total capital assets being depreciated	9,031,982	31,955	-	9,063,937	
Accumulated depreciation	3,188,686	223,086	-	3,411,772	
Net sewer capital assets being depreciated	5,843,296	(191,131)	-	5,652,165	
Net sewer capital assets	5,876,718	(191,131)		5,685,587	
Water capital assets:					
Capital assets not being depreciated:					
Land	9,587	-	-	9,587	
Capital assets being depreciated:					
Buildings and water tower	518,952	-	-	518,952	
Equipment	330,144	-	-	330,144	
Land improvements	11,166	21,471	-	32,637	
Mains	2,003,757	42,363		2,046,120	
Total capital assets being depreciated	2,864,019	63,834	-	2,927,853	
Accumulated depreciation	1,300,453	52,973		1,353,426	
Net water capital assets being depreciated	1,563,566	10,861	*	1,574,427	
Net water capital assets	1,573,153	10,861	•	1,584,014	
Net business-type activities capital assets	\$ 7,449,871	\$ (180,270)	\$ -	\$ 7,269,601	

June 30, 2004

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:		
General government	\$	100,526
Public safety		54,494
Public works		21,497
Recreation and culture		33,684
Total governmental activities	\$	210,201
Business-type activities:		
Sewer	\$	223,086
Water		52,973
Total business-type activities	· <u>\$</u>	486,260

NOTE 6: LONG-TERM LIABILITIES

The City issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	ginning alance	-	dditions		Ending Balance	Due Vithin ne Year
Governmental activities:								
Municipal Purchase - City Hall								
Improvements								
Amount of Issue - \$76,949								
Maturing through November 2004	5.50%	\$16,290	\$ 32,717	\$	(16,427)	\$	16,290	\$ 16,290
Installment Purchase - Expedition								•
Amount of Issue - \$27,274								
Maturing through April 2007	5.7461%	6,618-7,400	27,274		(6,258)		21,016	6,618
Capital Lease Purchase - Police Car								
Amount of Issue - \$46,897								
Maturing through August 2004	5.90%	15,615	30,360		(14,745)		15,615	15,615
Compensated absences			 43,069		(4,773)		38,296	 •
Total governmental activities			 133,420		(42,203)	_	91,217	 38,523

June 30, 2004

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type activities:						
Revenue Refunding Bonds - 1998						
Series Water Supply (43.6036%)						
Sewage Disposal (56.3964%)						
Amount of Issue - \$2,775,000						
Maturing through April 2027	4.4-5.25%	\$65,000-140,000	\$ 2,075,000	\$ (140,000)	\$ 1,935,000	\$ 160,000
Compensated absences			43,209	(15,010)	28,199	
Total business-type activities			2,118,209	(155,010)	1,963,199	160,000
Total governmental and						
business-type activities			\$ 2,251,629	\$ (197,213)	\$ 2,054,416	\$ 198,523

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended	-	Gov	ernm	ental Activ	ities		Business-type Activities				S																																					
June 30,		rincipal		Interest		Total		Total		Total		Total		Total		Total		Total		Total		Total		Total		Total		Total		Total		Total		Total		Total		<u>Total</u>		Total		Total		Principal	l Interest			Total
2005	\$	38,523	\$	3,025	\$	41,548	\$	160,000	\$	95,232	\$	255,232																																				
2006		6,998		827		7,825		160,000		88,193		248,193																																				
2007		7,400		425		7,825		175,000		80,832		255,832																																				
2008		-		-		-		170,000		72,783		242,783																																				
2009		-		-		-		170,000		64,792		234,792																																				
2010-2014		-		-		-		380,000		232,508		612,508																																				
2015-2019		-		-		-		235,000		162,956		397,956																																				
2020-2024		-		-		-		290,000		100,012		390,012																																				
2025-2027		_						195,000		20,475		215,475																																				
	\$	52,921	\$	4,277	\$	57,198	\$	1,935,000	\$	917,783	\$	2,852,783																																				

June 30, 2004

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	Governmental <u>Activities</u>		iness-type ctivities
Receivables:			
Property taxes	\$	30,620	\$ -
Accounts		19,826	80,958
Notes		35,002	-
Interest		1,771	2,368
Intergovernmental		182,792	 -
Total receivables	\$	270,011	\$ 83,326
Accounts payable and accrued expenses:			
Accounts	\$	74,159	\$ 14,430
Interest		1,580	23,808
Intergovernmental	***	4,029	 -
Total accounts payable and accrued expenses	\$	79,768	\$ 38,238

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2004 is as follows:

Receivable Fund	Payable Fund		mount	
General Fund	Nonmajor Governmental Funds Flood Mitigation HGMP Fund	\$	2,381	(I)
Nonmajor Governmental Funds Cemetery Operating Fund	Nonmajor Governmental Funds Cemetery Perpetual Care Fund	<u></u>	955 3,336	(II)

- (I) To transfer the remaining fund balance to General Fund
- (II) To transfer interest earned

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

June 30, 2004

Interfund transfers reported in the fund statements were as follows:

Funds Transferred From	Funds Transferred To	 Amount	
Major Street Fund	Nonmajor Governmental Funds		
	Highway Maintenance Fund	\$ 4,250	(I)
General Fund	Major Street Fund	19,008	(I)
	Local Street Fund	90,000	(I)
	Nonmajor Governmental Funds		
	Fire Fund	50,598	(I)
	Cemetery Operating Fund	19,434	(1)
	Band Fund	3,000	(I)
	DPW Park Maintenance Fund	126,500	(I)
	Parks and Recreation Fund	40,200	(I)
	Equipment Replacement Fund	15,000	(I)
	Flood Mitigation FMAP Fund	3,250	(I)
Nonmajor Governmental Funds			
Flood Mitigation HMGP Fund	General Fund	17,137	(II)
	Nonmajor Governmental Funds		` .
Cemetery Perpetual Care Fund	Cemetery Operating Fund	 1,955	(III)
	Total	\$ 390,332	

- (I) To finance operations
- (II) To transfer remaining fund balance to the General Fund
- (III) To transfer interest earned

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City obtains its other insurance coverage through a commercial insurance company.

June 30, 2004

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended June 30, 2004 were as follows:

Valuation	Employer Contribution	Employee Contribution
Division	Rate	Rate
General - Non-Union	7.44%	4.70%
Police - Non-Union	0.00%	4.80%
General - Union	4.25%	4.70%
Clerical - Union	6.95%	4.70%
Police - POAM	6.93%	4.80%

Annual Pension Costs – For year ended December 31, 2003, the City's annual pension cost of \$45,550 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2003 follows:

		2003	2002			2001		
Annual pension cost Percentage of APC contributed	\$	45,550 100%	\$	20,390 100%	\$	28,780 100%		
Net pension obligation		-		-		-		

June 30, 2004

Post Employment Benefits:

In addition to the pension benefits described above, the City has a policy of paying the health insurance of all department heads upon retirement that had obtained twenty years of service. This benefit is payable until death. Currently, there are three retirees eligible for and receiving this benefit. The City is using a pay-as-you-go method of funding this benefit.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

NOTE 11: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for inventory – This reserve was created to indicate that the portion of fund balance represented by inventory is not available for appropriation and expenditure.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

Specific designations on fund equity include:

Designated for accumulated sick leave – This designation was created to indicate funds set aside to cover payment of accumulated sick leave.

June 30, 2004

NOTE 12: COMPONENT UNITS REPORTING

A condensed statement of net assets for each of the discretely presented component units is shown below. The statement of activities is presented in the government-wide financial statements.

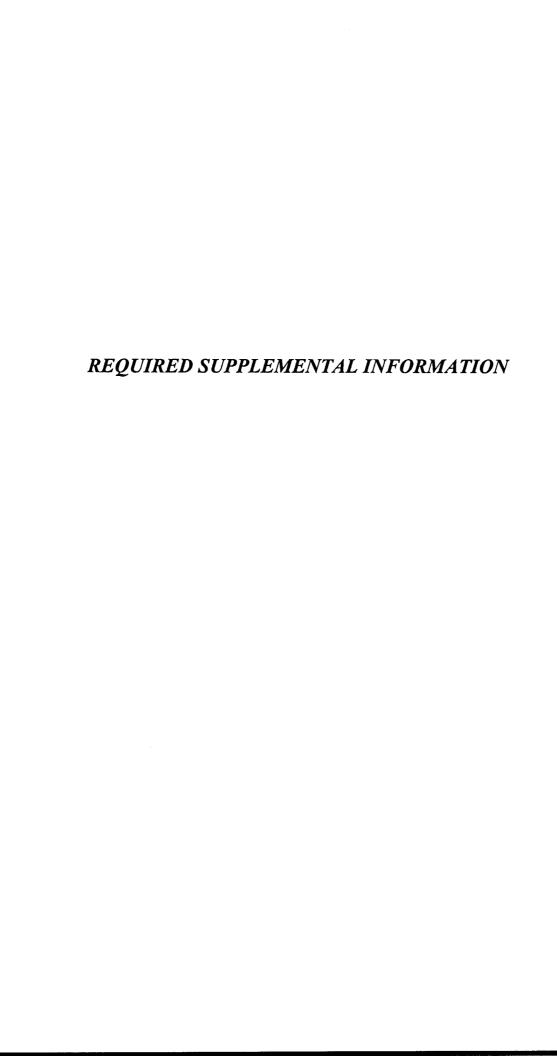
	Dev	Downtown Development <u>Authority</u>			<u>Total</u>	
Total assets Total liabilities	\$	=	\$	47,223	\$	•
Unrestricted net assets	\$	14,622 49,144	\$	47,223	\$	14,622 96,367

NOTE 13: PRIOR PERIOD ADJUSTMENTS

Correction of an Error:

In the prior year, the amount of the liability for compensated absences in the enterprise funds was recorded in the general long-term debt account group. The effect on the beginning net assets of the enterprise funds is as follows:

	<u>Sewer</u>		<u>Water</u>
Beginning net assets, as previously stated	\$ 5,609,702	\$	1,577,320
Prior period adjustment to recognize compensated absences as a liability	 (15,913)	_	(27,296)
Beginning net assets, as restated	\$ 5,593,789	\$	1,550,024



SCHEDULE OF DEFINED BENEFIT PENSION PLAN FUNDING PROGRESS

Actuarial Valuation Date	1	<u> 12/31/2003</u>			<u> 12/31/2001</u>		
Actuarial Value of Assets	\$	3,525,381	\$	3,345,726	\$	3,346,127	
Actuarial Accrued Liability (AAL)		3,925,038		3,569,065		3,422,883	
Unfunded AAL (UAAL)		399,657		223,339		76,756	
Funded Ratio		90%		94%		98%	
Covered Payroll		914,279		860,018		781,412	
UAAL as a percentage of covered payroll		44%		26%		10%	

BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts						Actual Over (Under)		
	Orig	inal		Final		Actual	Final Budge		
Revenues:									
Property taxes	\$ 82	9,017	\$	831,111	\$	830,063	\$	(1,048)	
Licenses and permits		8,630		10,607		10,160	•	(447)	
Federal grants		-		21,729		21,729		-	
State grants	41	5,800		382,829		382,323		(506)	
Contributions from other units	3	0,279		26,788		26,788		-	
Charges from services	23	4,956		175,783		174,724		(1,059)	
Fines and forfeits	. 6	5,000		16,582		16,582		-	
Interest and rents	14	9,310		195,844		195,824		(20)	
Other revenue		5,850		80,501		81,773		1,272	
Total revenues	1,76	8,842		1,741,774		1,739,966		(1,808)	
Expenditures:									
General government	44	0,660		475,595		475,594		(1)	
Public safety	55	9,236		487,168		487,361		193	
Public works		3,017		214,698		213,697		(1,001)	
Health and welfare		2,584		22,584		22,584		-	
Other	4	5,752		61,743		61,404		(339)	
Capital outlay	8	4,862		45,405		45,405		-	
Debt service:				•		,			
Principal		-		37,429		37,429		-	
Interest and charges				5,183		5,183	*****	-	
Total expenditures	1,40	6,111		1,349,805	_	1,348,657		(1,148)	
Excess (deficiency) of									
revenues over expenditures	36	2,731		391,969		391,309		(660)	
Other financing sources (uses):									
Transfers in		-		21,542		17,137		(4,405)	
Transfers out	(36	1,229)		(366,990)		(366,990)		-	
Total other financing sources (uses)	(36	1,229)		(345,448)		(349,853)		(4,405)	
Net change in fund balance		1,502		46,521		41,456		(5,065)	
Fund balance, beginning of year	63	0,964		630,964		630,964		-	
Fund balance, end of year	\$ 63	2,466	\$	677,485	\$	672,420	\$	(5,065)	

SPECIAL REVENUE FUND - MAJOR STREET FUND

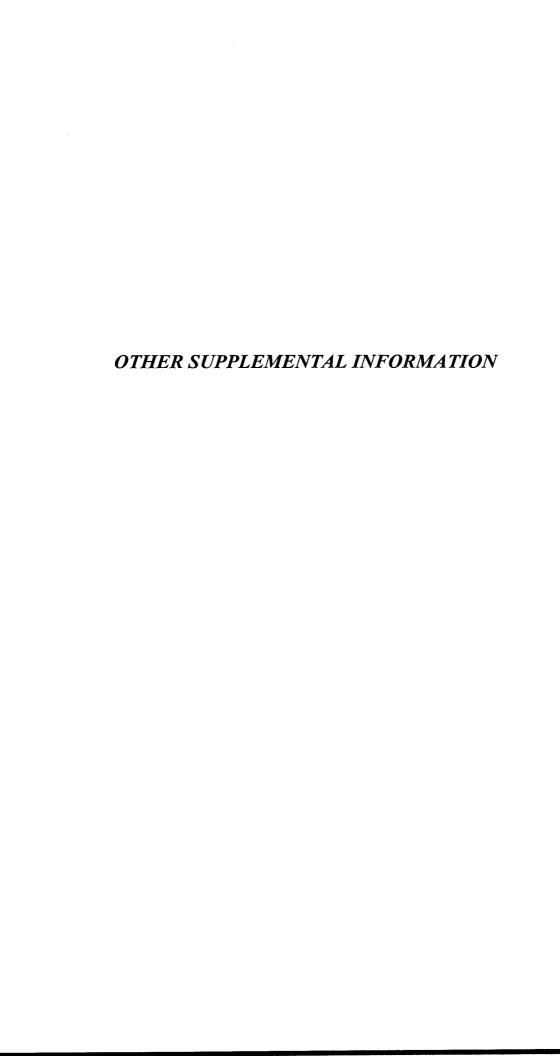
BUDGETARY COMPARISON SCHEDULE

	D. J	J. A		Actual		
		d Amounts	4	Over (Under)		
n	Original	<u>Final</u>	Actual	Final Budget		
Revenues:	6 41 644	¢ 45.202	£ 45.202	C		
Property taxes State grants	\$ 41,644 138,000	\$ 45,292 165,485	\$ 45,292 165,485	\$ -		
Interest and rents	3,500	989	989	•		
Other revenue	J,500 -	715	715	_		
Total revenues	183,144		212,481	-		
Expenditures:						
Public works	289,718	342,202	252,239	(89,963)		
Capital outlay	-	1,073	93,186	92,113		
Total expenditures	289,718	343,275	345,425	2,150		
Excess (deficiency) of						
revenues over expenditures	(106,574)	(130,794)	(132,944)	(2,150)		
Other financing sources (uses):						
Transfers in	10,000	19,008	19,008	-		
Transfers out	-		(4,250)	(4,250)		
Total other financing sources (uses)	10,000	19,008	14,758	(4,250)		
Net change in fund balance	(96,574)	(111,786)	(118,186)	(6,400)		
Fund balance, beginning of year	212,332	212,332	212,332			
Fund balance, end of year	\$ 115,758	\$ 100,546	\$ 94,146	\$ (6,400)		

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

								Actual
	Budgeted Amounts					Over (Under)		
		Original	_	Final		Actual	<u>Fin</u>	al Budget
Revenues:								
Property taxes	\$,	\$	22,537	\$	22,537	\$	-
State grants		52,000		62,472		62,471		(1)
Interest and rents		5,000		3,259		3,258		(1)
Other revenue			_	715		715		-
Total revenues		77,824	_	88,983		88,981		(2)
Expenditures:								
Public works		183,970		163,514		160,955		(2,559)
Capital outlay		10,000		23,073		1,073		(22,000)
Total expenditures		193,970		186,587		162,028		(24,559)
Excess (deficiency) of								
revenues over expenditures	-	(116,146)	_	(97,604)	_	(73,047)		24,557
Other financing sources (uses):								
Transfers in		116,148		90,000		90,000		
Total other financing sources (uses)		116,148		90,000		90,000		
Net change in fund balance		2		(7,604)		16,953		24,557
Fund balance, beginning of year		439,889		439,889		439,889		•
Fund balance, end of year	\$	439,891	<u>\$</u>	432,285	<u>\$</u>	456,842	\$	24,557



DETAILED SCHEDULE OF REVENUES

Revenues:	
Current taxes:	
Property taxes	\$ 797,006
Penalties and interest on taxes	7,678
Administration fees	24,118
Payment in lieu of taxes	1,261
	830,063
Licenses and permits:	
Business licenses and permits	2,637
CATV franchise fees	7,523
	10,160
Federal grants:	
Police	21,729
	21,729
State grants:	•
Liquor license fees	1,727
State-shared revenue - sales tax	379,269
Police grant	1,327
	382,323
Contribution from other units:	
Contributions from county - DARE program	1,526
Reimbursement from school district - Cops in Schools	20,655
Bullard Sanford Memorial Library - administration charges	4,607
Building Suitered Manager States	26,788
Charges for services:	
Refuse collection fees	93,485
Ambulance	22,869
Police services & reports	2,539
Other	6,531
Charges to other funds	49,300
	174,724
Fines and forfeitures:	
Ordinance fines	16,582
	16,582
Interest and rents:	
Interest	5,263
Equipment rental	185,361
Rents	5,200
	195,824

DETAILED SCHEDULE OF REVENUES, CONTINUED

Other revenue:	
Sale of fixed assets	\$ 789
Contributions and donations	2,148
Reimbursements	60,000
Loan repayments	1,455
Other	17,381
	81,773
Total revenues	1,739,966
Other financing sources:	
Transfers from other funds	17,137
	17,137
Total revenues and other financing sources	\$ 1,757,103

DETAILED SCHEDULE OF EXPENDITURES

\$ 2,600
1,432
8,044
40
12,116
59,462
19,515
421
3,904
83,302
51,624
7,956
152
2,640
62,372
9,385
9,385
7,880
7,340
15,220
66,034
17,147
265
155
50
83,651
380
9,000
232
375
313

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

	General Government (continued):	
	Elections:	
	Personnel	\$ 526
	Supplies	950
		1,476
_	Buildings and Grounds:	62 702
	Personnel	63,792 10,740
	Fringe benefits	
_	Supplies	19,067
	Contracted services	6,670
	Telephone	8,529
_	Dues and memberships	5,041
	Conference and travel	41
	Utilities	14,835
_	Repairs and maintenance	12,568
_	Equipment rental	2,037
	Other	21,695
		165,015
_	Attorney:	25 620
	Contracted services	25,630
		25,630
	Community Activities:	7.440
	Supplies	7,440
		7,440
-	Total general government	475,594
	Public Safety:	
_	Police:	
	Personnel	353,314
	Fringe benefits	89,315
-	Supplies	23,468
	Contracted services	2,378
	Telephone	3,440
-	Education & training	6,990
	Repairs & maintenance	5,768
	Equipment rental	77
	Other	596
		485,346
	Other Public Safety:	
	Personnel	1,812
	Education & training	203
		2,015
	Total public safety	487,361
_	Total public salety	

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Public Works:	
Department of Public Works:	
Personnel	\$ 19,391
Fringe benefits	1,458
Supplies	13,263
Repairs and maintenance	10,352
	44,464
Sidewalks:	
Personnel	930
Fringe benefits	12
Supplies	1,901
Repairs and maintenance	5,627
Equipment rental	1,563
	10,033
Street Lighting:	
Utilities	47,586
	47,586
Refuse:	0. 410
Contracted services	91,513
	91,513
Parking Lot:	
Personnel	1,651
Fringe benefits	118
Supplies	224
Utilities	3,036
Equipment rental	3,102
	8,131
Other Public Works:	2 225
Personnel	2,325 157
Fringe benefits	1,288
Supplies	986
Contracted services	1,852
Repairs and maintenance	5,362
Equipment rental	11,970
Total public works	213,697
Health and Welfare:	
Ambulance:	
Contracted services	22,584
	22,584

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Other:	
Insurance and Bonds:	4 20 000
Insurance	\$ 28,098
	28,098
Employee Benefits:	
Fringe benefits	31,945
	31,945
Payroll Taxes:	
Payroll taxes	1,361
	1,361
Total other	61,404
Debt Service:	37,429
Principal	5,183
Interest and fees	
	42,612
Capital Outlay:	
General government	23,670
Public safety	11,751
Public works	9,984
	45,405
Total expenditures	1,348,657
Other Financing Uses:	
Transfers to other funds	366,990
2	366,990
Total expenditures and other financing uses	\$ 1,715,647

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2004

		Special Revenue Funds							
	Highway Maintenance Fund			Fire Fund		Cemetery Operating Fund		Band Fund	
Assets:					_			# #00	
Cash and cash equivalents	\$	(1,089)	\$	133,990	\$	15,486	\$	5,599	
Accounts receivable		-		2,390		1,583		-	
Interest receivable		2 404		240		-		•	
Due from other governmental units		3,404		240		955		_	
Due from other funds		-		255		85		-	
Prepaid expenses					-				
Total assets	<u>\$</u>	2,315	\$	136,875	<u>\$</u>	18,109	\$	5,599	
Liabilities and Fund Balances:									
Liabilities:	•	50	æ	12	æ		æ		
Accounts payable and accrued expenses	\$	59	\$	13	\$	-	\$	-	
Due to other funds								-	
Total liabilities		59		13		-		-	
Fund balances:									
Reserved for:									
Prepaid expenses		-		255		85		-	
Nonexpendable cemetery principal		-		-		-		-	
Unreserved, reported in:									
Special revenue funds		2,256		136,607		18,024		5,599	
Debt service funds					_			-	
Total fund balances		2,256		136,862		18,109		5,599	
Total liabilities and fund balances	<u>\$</u>	2,315	<u>\$</u>	136,875	<u>\$</u>	18,109	<u>\$</u>	5,599	

				Spe	ecial Reve	enue	Funds				lood		ubtotal	
DPW Park Maintenance Fund		Parks and Recreation Fund		Street Lighting Fund		Equipment Replacement Fund		Drug Law Enforcement Fund		Mitigation HMGP Fund		Nonmajor Governmental Funds		
\$	529	\$	19,574	\$	2,663	\$	35,448	\$	761	\$	2,381	\$	215,342 5,540	
	67		1,500		-		-		-		-		3,3 4 0	
	-		-		-		-		-		_		3,644	
	-		-		-		-		-		-		955	
	- 194		35		-						-	-	569	
\$	790	\$	21,109	\$	2,663	\$	35,448	\$	761	\$	2,381	<u>\$</u>	226,050	
	20	•		\$	534	\$	_	\$	_	\$	_	\$	636	
\$	30	\$	-	Ф	-	J	-	Ψ			2,381		2,381	
	30				534		-				2,381		3,017	
	194		35		_		_		-		-		569	
	194		-		_		-		-		-		-	
	566		21,074		2,129		35,448 -		761 -		- -		222,464	
					2 120		35,448		761				223,033	
	760		21,109		2,129	<u> </u>			761	\$	2,381	 \$	226,050	
<u>\$</u>	790	<u>\$</u>	21,109	\$	2,663	\$	35,448	D.	/01	Ψ	2,00	_ =		

continued

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

June 30, 2004

	Special Revenue Fund Flood Mitigation FMAP Fund			t Service Fund	P	ermanent Fund		
			Impr	Street covement Fund		Cemetery petual Care Fund		Total Ionmajor vernmental Funds
Assets: Cash and cash equivalents Accounts receivable	\$	23	\$	9,062 -	\$	111,420 150	\$	335,847 5,690
Interest receivable Due from other governmental units Due from other funds		-		- - -		296 - -		296 3,644 955
Prepaid expenditures		- 23	\$	9,062	<u> </u>	111,866		569 347,001
Total assets Liabilities and Fund Balances:	\$		J.	9,002		111,800		347,001
Liabilities:	c		æ		\$		\$	636
Accounts payable and accrued expenses Due to other funds	\$		\$		J	955	J	3,336
Total liabilities			*****			955		3,972
Fund balances: Reserved for:								
Prepaid expenditures Nonexpendable cemetery principal		-		-		- 110,911		569 110,911
Unreserved, reported in: Special revenue funds Debt service funds		23		- 9,062		-	*******	222,487 9,062
Total fund balances		23		9,062		110,911		343,029
Total liabilities and fund balances	\$	23	\$	9,062	\$	111,866	\$	347,001

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	Special Revenue Funds									
	Highway Maintenance Fund			Fire Fund	Оре	netery crating und		Band Fund		
Revenues: Property taxes State grants Contributions from other units Charges from services Fines and forfeits Interest and rents Other revenue Total revenues		31,852 - - - - - - - - - - - - - - - - - - -	\$	611 74,329 43 - 605 258 75,846	\$	- - 16,991 - 55 16,200 33,246	\$	- - - - 34 159		
Expenditures: General government Public safety Public works Recreation and culture Capital outlay Total expenditures		- - 35,863 - - - 35,863		90,443 - - 5,220 95,663		46,437		3,584		
Excess (deficiency) of revenues over expenditures		(4,011)		(19,817)		(13,191)		(3,391)		
Other financing sources (uses): Transfers in Transfers out		4,250		50,598		21,389		3,000		
Total other financing sources (uses) Net change in fund balance		4,250 239		50,598 30,781		21,389 8,198		3,000 (391)		
Fund balances, beginning of year Fund balances, end of year	<u> </u>	2,017 2,256	\$	106,081 136,862	<u>\$</u>	9,911 18,109	<u>\$</u>	5,990 5,599		

continued

Special Revenue Funds													
	PW Park intenance Fund	nance Recreation		Street		Equipment Replacement Fund		Drug Law Enforcement Fund		Flood Mitigation HMGP Fund		No Gov	ubtotal onmajor ernmental Funds
\$	_	\$	_	\$	5,904	\$	-	\$	-	\$	-	\$	5,904
•	-		-		-		-		-		-		32,463
			-		-		-		-		-		74,329
	-		20,316		-		-		-		-		37,350 895
	-		-		-		-		895		- 170		18,155
	17,024		86		30		151		-		170		53,467
	2,191		28,892				5,767						
	19,215		49,294		5,934		5,918		895		170		222,563
										_			46,437
	-		-		-		-		134		_		90,577
	-		-		6 072		-		-	10,513			52,448
	-		-		6,072		_		•		-		250,447
	156,423		90,440		_		11,247		_		-		16,467
_									134		10,513		456,376
_	156,423		90,440		6,072		11,247		134		10,515		100,070
	(137,208)		(41,146)		(138)		(5,329)		761		(10,343)		(233,813)
							4.5.000						260,937
	126,500		40,200		-		15,000		-		(17,137)		(17,137)
	126,500		40,200				15,000				(17,137)) _	243,800
	(10,708)		(946)		(138)		9,671		761		(27,480))	9,987
	11,468		22,055		2,267		25,777				27,480		213,046
- \$	760	\$	21,109	\$	2,129	\$	35,448	\$	761	\$	_	\$	223,033
<u> </u>	/00	9	21,107	¥		-						-	

continued

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

	Special Revenue Fund Flood Mitigation FMAP Fund		Fi Sti Impro	Service und reet vement und	Co Perp	rmanent Fund emetery etual Care Fund	No Gove	Total onmajor ernmental Funds
Revenues:	æ		\$		\$	_	\$	5,904
Property taxes	\$	-	Þ	_	Ф	<u>-</u>	J	32,463
State grants		-		_		_		74,329
Contributions from other units		-		_		-		37,350
Charges from services		_		_		-		895
Fines and forfeits		_		_		954		19,109
Interest and rents		_		_		3,750		57,217
Other revenue								
Total revenues						4,704		227,267
Expenditures:								46 427
General government		-		-		-		46,437
Public safety		-		•		-		90,577 55,675
Public works		3,227		-		-		250,447
Recreation and culture		-		-		-		16,467
Capital outlay								
Total expenditures		3,227		-		=		459,603
Excess (deficiency) of								(()
revenues over expenditures		(3,227)				4,704		(232,336)
Other financing sources (uses):								
Transfers in		3,250		-		-		264,187
Transfers out						(1,955)		(19,092)
Total other financing sources (uses)		3,250		-		(1,955)		245,095
Net change in fund balance		23		-		2,749		12,759
Fund balances, beginning of year	_			9,062		108,162		330,270
Fund balances, end of year	\$	23	\$	9,062	\$	110,911	\$	343,029

FIDUCIARY FUNDS – TRUST FUNDS

COMBINING BALANCE SHEET

June 30, 2004

	L	ocal					\mathcal{L}	Owntown			
	Government Education Fund		Police Pride Fund		Fred Lapratt Memorial Fund			evelopment olving Loan Fund		Total	
Assets:	\$	271	\$	3,592	\$	2,499	\$	32,977	\$	39,339	
Cash and cash equivalents Notes receivable			<u> </u>			-		9,339		9,339	
Total assets	\$	271	\$	3,592	\$	2,499	\$	42,316	<u>\$</u>	48,678	
Liabilities and Fund Balances: Liabilities:											
Accounts payable and accrued expenses Deferred revenue	\$	1	\$	<u>-</u>	\$	-	\$	9,339	\$	9,339	
Total liabilities		1		•				9,339		9,340	
Fund balances:											
Unreserved, reported in: Trust funds		270		3,592		2,499		32,977		39,338	
Total fund balances		270		3,592		2,499		32,977	_	39,338	
Total liabilities and fund balances	<u>\$</u>	271	\$	3,592	<u>\$</u>	2,499	\$	42,316	\$	48,678	

FIDUCIARY FUNDS - TRUST FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Local Government Education Fund		Police Pride Fund		Fred Lapratt Memorial Fund		K-9 Unit Fund		Downtown Development Revolving Loan Fund		Total	
Revenues: Interest and rents Other revenue Total revenues	\$ 	1 1	\$ 	15 1,000 1,015	\$	13	\$	7 60 67	\$	386 2,350 2,736	\$ 	422 3,410 3,832
Expenditures: Public safety Total expenditures		-		18 18				2,148 2,148			_	2,166 2,166
Excess (deficiency) of revenues over expenditures		1		997		13		(2,081)		2,736		1,666
Net change in fund balance		1		997		13		(2,081)		2,736		1,666
Fund balances, beginning of year Fund balances, end of year	<u> </u>	269 270	\$	2,595 3,592	<u> </u>	2,486 2,499	<u>\$</u>	2,081	\$	30,241 32,977	<u>\$</u>	37,672 39,338

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2004

	July 1, 2003 Additions		Deductions	June 30, 2004
Payroll Withholding Fund				
Assets: Cash and cash equivalents Accounts receivable Total assets	\$ 5,541 48 \$ 5,589		\$ 1,699,802 <u> </u>	\$ 6,511 48 \$ 6,559
Liabilities: Accounts payable Total liabilities	\$ 5,589 \$ 5,589	\$ 1,700,772 \$ 1,700,772	\$ 1,699,802 \$ 1,699,802	\$ 6,559 \$ 6,559
Tax Fund				
Assets: Cash and cash equivalents	\$ 497	\$ 1,145,843	\$ 1,145,866	<u>\$ 474</u>
Liabilities: Due to other funds Due to other governmental units	\$ - 497	\$ 11,317 	\$ 11,317 	\$ - 474
Total liabilities	<u>\$ 497</u>	<u>\$ 1,145,843</u>	\$ 1,145,866	<u>\$ 474</u>
Total Agency Funds	-			
Assets: Cash and cash equivalents Accounts receivable	\$ 6,038 48		\$ 2,845,668	\$ 6,985 48
Total assets	\$ 6,086	\$ 2,846,615	\$ 2,845,668	\$ 7,033
Liabilities: Accounts payable Due to other funds	\$ 5,589 - 497	11,317	11,317	-
Due to other governmental units Total liabilities	\$ 6,086			\$ 7,033



(989) 791-1555 Fax (989) 791-1992

MANAGEMENT LETTER

To the Honorable Mayor and City Council City of Vassar, Michigan

& COMPANY

Certified Public Accountants

We have completed our audit of the financial statements of the City of Vassar for the year ended June 30, 2004, and have issued our report thereon dated September 23, 2004. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Vassar taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination. If there is a need to discuss the above comments further, please contact us at your convenience.

Sincerely,

Berthiaume & Company Certified Public Accountants

Berthaume & Co.

Common a done a too dan

September 23, 2004